

Prepared for

Bay County Employees' Retirement System

April 17, 2012

Representing Baird Advisors

Warren D. Pierson, CFA

Managing Director

Senior Portfolio Manager

M. Sharon deGuzman

Senior Vice President

Senior Portfolio Manager

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Section 1

Firm Overview

Overview of Baird

BAIRD

Baird has been helping clients achieve their asset management, investment banking and private equity goals for over 90 years.

1919

Founded in Milwaukee

2004

Baird becomes employee-owned

\$87 billion

Assets under management

\$925 million

Revenue

2,700

Employees

100+

Office locations on three continents*

9

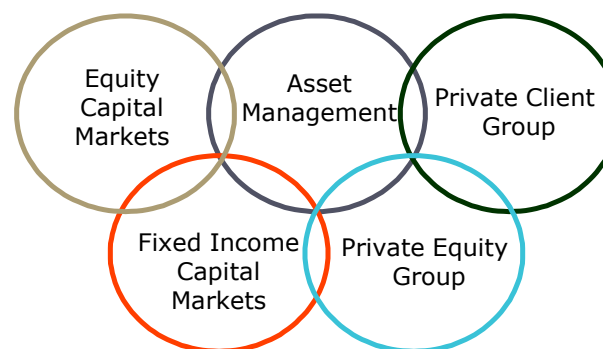
Number of consecutive years Baird has been recognized as one of the FORTUNE 100 Best Companies to Work For®

1

Ranked No. 1 “most trusted” research in Greenwich Associates survey 2004-2011

“Investment Banking Firm of the Year” for 2011 - *The M&A Advisor*

A Comprehensive Financial Services Firm



Baird Advisors Highlights

- Dedicated team focused on fixed income
- Over **\$16.4 billion** of assets under management as of March 31, 2012
- Disciplined, research driven approach
- Focus on superior customer service

Baird's International Presence

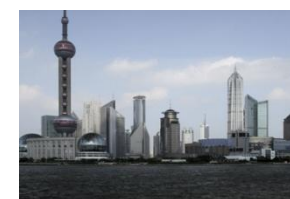
United States



Europe



Asia



Milwaukee Chicago New York London Frankfurt Hamburg Hong Kong San Francisco Palo Alto
Atlanta Boston Philadelphia Tampa Washington, D.C. Beijing Shanghai Stamford Charlotte

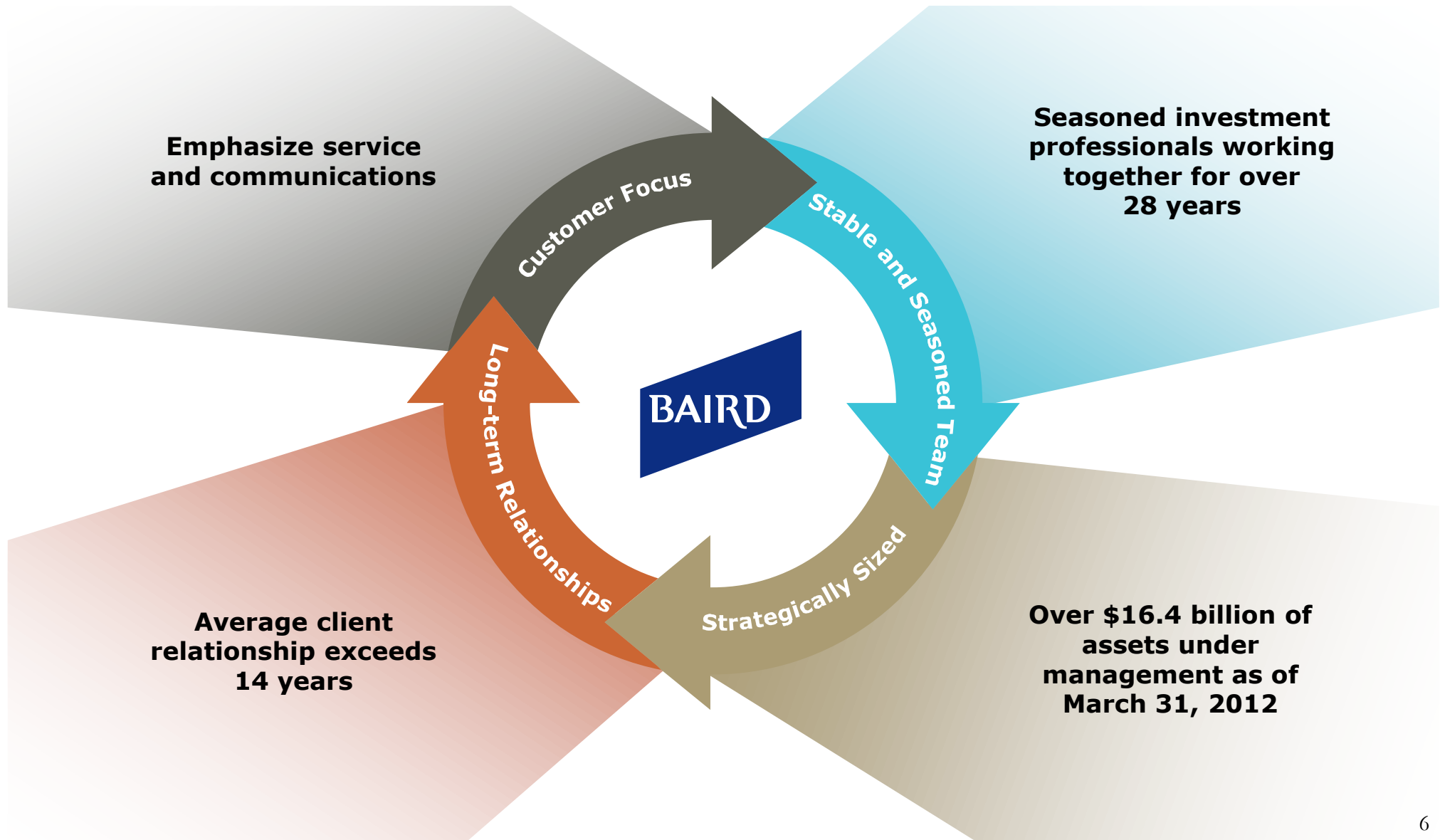
1) Greenwich Associates U.S. Equity Investors – Small / Mid-Cap Funds, April 2011. Surveys conducted with 98 U.S. small-cap and mid-cap fund managers. Rankings based on top 10 research firms in survey.

* Baird and its operating affiliates have offices in the United States, Europe and Asia. Robert W. Baird Ltd. and Baird Capital Partners Europe are authorized and regulated in the UK by the Financial Services Authority.

Overview of Baird Advisors

BAIRD

Experienced team with a track record of consistent results in high quality fixed income management



Baird Advisors - Representative Clients

Client relationships average 14 years

BAIRD

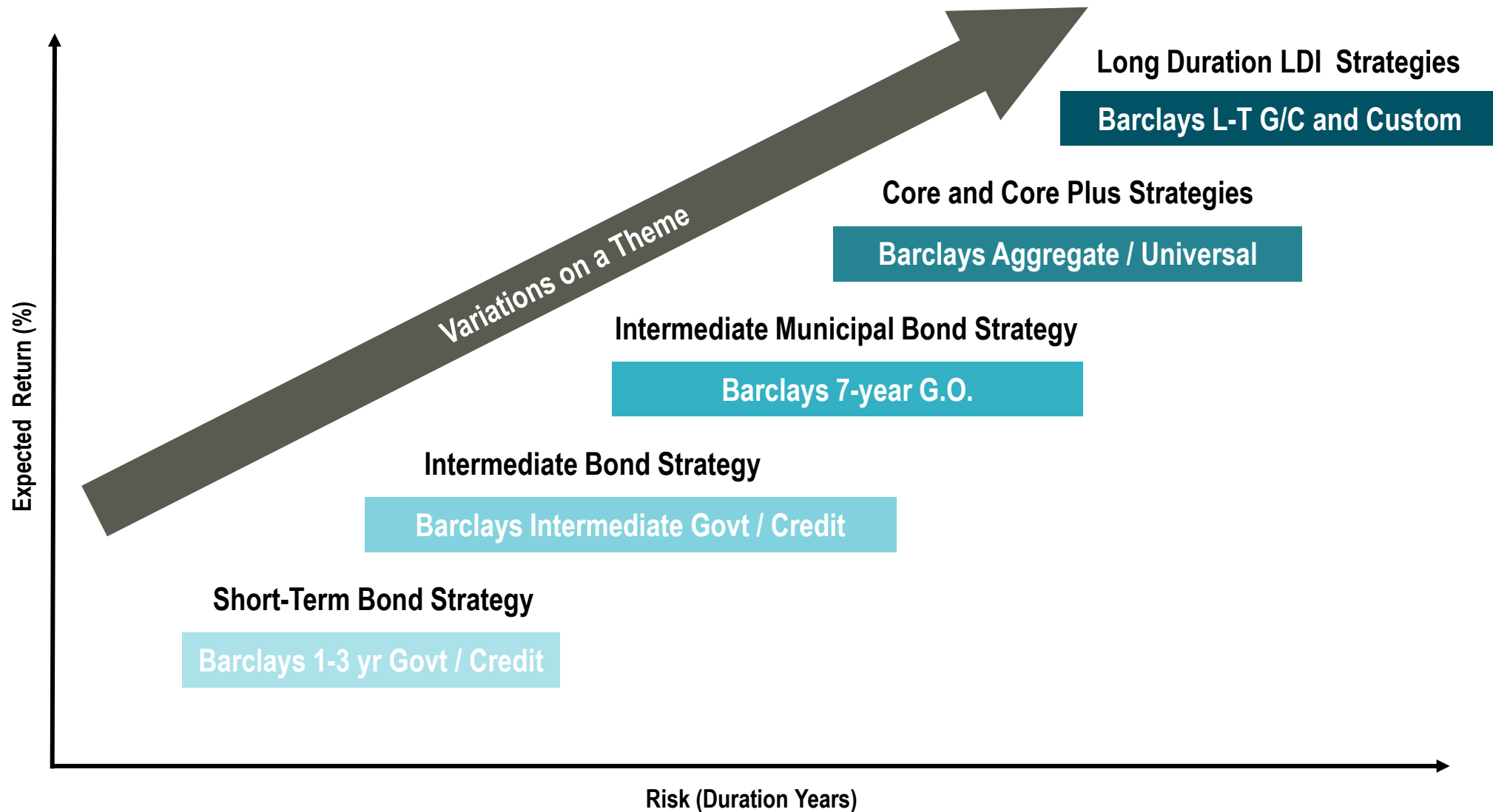


Note: The clients listed above represent various industry groups and geographic locations and were not selected based upon performance. Their appearance is not an indication of approval or disapproval of the investment management services provided.

Structured, Risk-controlled Portfolio Management

Consistent approach applied across risk spectrum

BAIRD



Baird Bond Funds

Net Returns as of March 31, 2012



	2012 YTD	2011	2010	Since Inception*	Since Inception Lipper Rank & Percentile
Baird Core Plus Bond Fund - Institutional	1.73%	7.89%	9.81%	7.14%	11 of 239
Barclays Capital U.S. Universal Bond Index	<u>0.85%</u>	<u>7.40%</u>	<u>7.16%</u>	<u>6.33%</u>	5%
<i>Difference</i>	+0.88%	+0.49%	+2.65%	+0.81%	
Baird Aggregate Bond Fund - Institutional	1.60%	7.85%	8.34%	6.45%	40 of 239
Barclays Capital U.S. Aggregate Bond Index	<u>0.30%</u>	<u>7.84%</u>	<u>6.54%</u>	<u>6.15%</u>	17%
<i>Difference</i>	+1.30%	+0.01%	+1.80%	+0.30%	
Baird Intermediate Bond Fund - Institutional	1.64%	6.14%	7.54%	6.06%	81 of 239
Barclays Capital Intermediate Govt/Credit Bond Index	<u>0.61%</u>	<u>5.80%</u>	<u>5.89%</u>	<u>5.68%</u>	34%
<i>Difference</i>	+1.03%	+0.34%	+1.65%	+0.38%	
Baird Short-Term Bond Fund - Institutional	1.58%	2.08%	4.39%	3.53%	45 of 147
Barclays Capital 1-3 Year Govt/Credit Bond Index	<u>0.36%</u>	<u>1.59%</u>	<u>2.80%</u>	<u>3.47%</u>	31%
<i>Difference</i>	+1.22%	+0.49%	+1.59%	+0.06%	
Baird Intermediate Municipal Bond Fund - Institutional	0.00%	8.55%	2.42%	5.13%	2 of 74
Barclays Capital 7 Year G.O. Bond Index	<u>-0.16%</u>	<u>10.58%</u>	<u>4.35%</u>	<u>5.37%</u>	3%
<i>Difference</i>	+0.16%	-2.03%	-1.93%	-0.24%	

Lipper Rankings and Percentiles are as of March 31, 2012.

* The Baird Core Plus, Aggregate, and Intermediate Bond Funds Since Inception net returns are based on performance from September 30, 2000 through March 31, 2012. The Baird Intermediate Municipal Bond Fund Since Inception net return is based on performance from March 31, 2001 through March 31, 2012. The Baird Short Term Bond Fund Since Inception net return is based on performance from August 31, 2004 through March 31, 2012.

Two Fold Investment Process

✓ *Structure portfolio to achieve return of benchmark for each client*

Add incremental value through multi-step, risk-controlled process

Complete Understanding of Benchmark

- Purchase only U.S. dollar denominated securities
- Quantify duration, sector, and sub sector weightings
- Evaluate pricing, turnover and projected changes to benchmarks

Control Portfolio Risk by Remaining Duration Neutral

- Average duration precisely matched to index at all times
- Immediate adjustment to portfolio as contributions and withdrawals occur
- Month-end rebalancing to match benchmark changes

Maintain Strict Adherence to Portfolio Guidelines

- Constant monitoring of risk control measures
- Use of "what-if" modeling techniques
- Compliance systems for all portfolio trades

Emphasis on Security Structure and Credit Research

- Specific security covenants, cash flow and liquidity concerns
- Assessment of company financials and management
- Prospects for sector and position in industry

Achieve benchmark returns through duration neutral discipline

Two Fold Investment Process

Structure portfolio to achieve return of benchmark for each client

✓ **Add incremental value through multi-step, risk-controlled process**

Our goal is to add incremental return of 15-50 basis points through multiple investment strategies

Yield Curve Positioning

- Optimize yield and “roll down”
- Analyze yield curve on a continual basis
- Dynamic process

Sector Allocation

- Long-term decisions to overweight and underweight
- Focus on relative value of different sectors
- Yield spreads and underlying risks change constantly

Security Selection

- Structure
- Attributes
- Liquidity

Competitive Execution

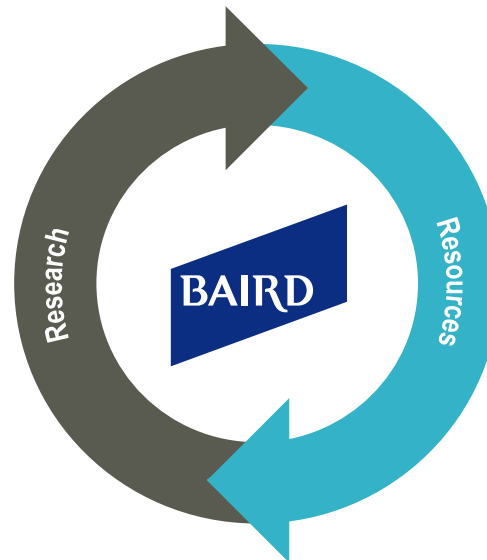
- Capitalize on market inefficiencies
- Timely market information
- Long-standing dealer relationships

Performance is consistent and competitive over complete market cycles

Research Driven Discipline

Wide breadth of resources and market research drive investment decisions

- All senior portfolio managers contribute to research driven process
- Access to leading Wall Street fixed income and equity research
- Access to Baird equity and credit analysts



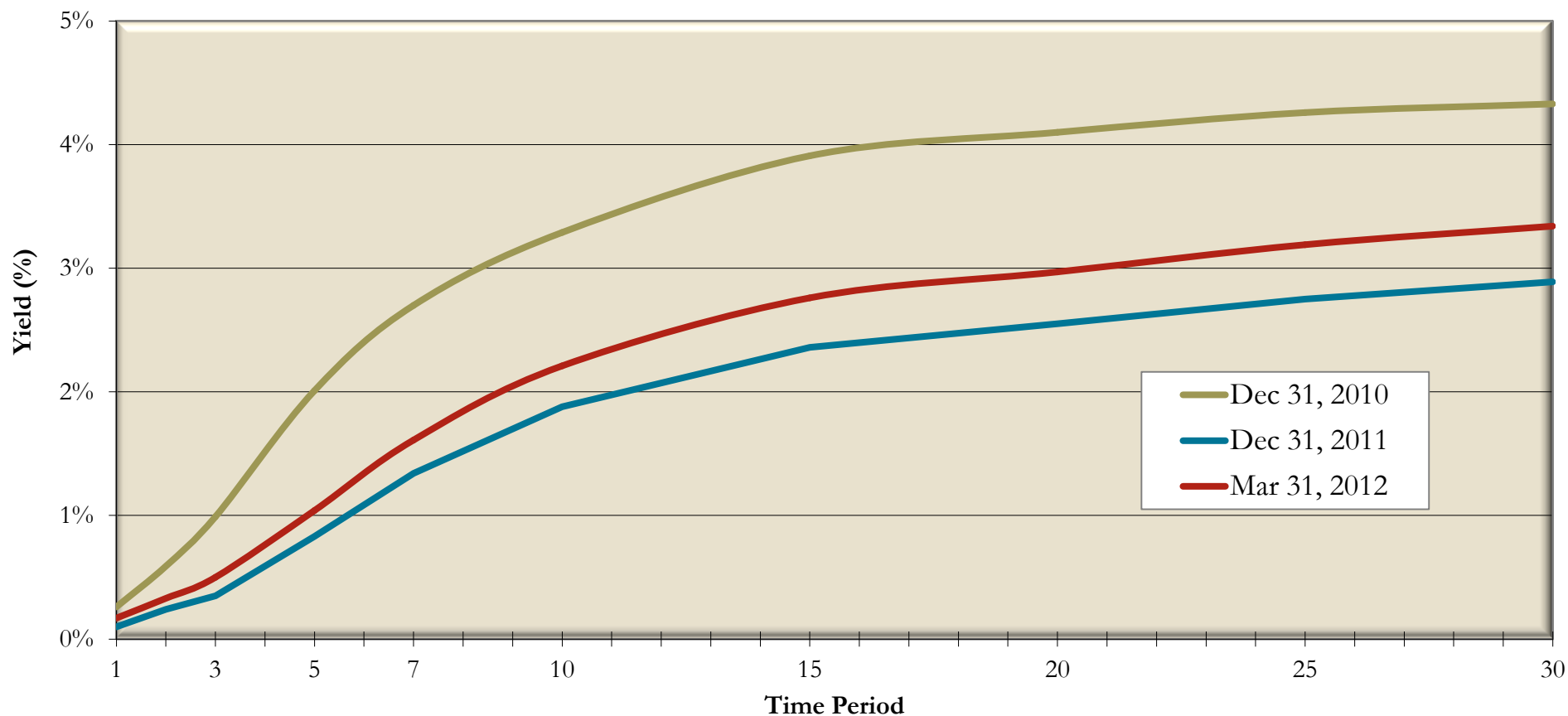
- Interactive Data BondEdge: Portfolio & benchmark analysis, guideline compliance
- Barclays Capital Live: Benchmark analysis
- Bloomberg: Security analysis, company research
- MarketAxess: Corporate trading platform and TRACE data market monitor
- TradeWeb: Treasury and Agency trading platform, historical curve information
- Intex Solutions and Bond Studio: Residential and commercial loan analysis
- Yield Book: Option-adjusted spread (OAS) and scenario rate of return
- CreditSights: Independent credit research from a team of analysts

Section 2

Current Market Environment

- **U.S. Economy:** Modest Growth with Continued Restraints
- **Inflation:** Wages Remain Benign with Elevated Consumer Inflation Rolling Over
- **Housing Markets:** Prices in Rocky Bottoming Process
- **Financial Markets:** Stock and Bond Prices Discounting a Long Period of Modest Growth
- **Wide Range of Potential Outcomes Still Possible**

Treasury Yields



<u>Maturity</u>	<u>Dec 31, 2010</u>	<u>Dec 31, 2011</u>	<u>Mar 31, 2012</u>	<u>YTD Change</u>
1	0.26%	0.10%	0.17%	+0.07
2	0.59%	0.24%	0.33%	+0.09
3	0.99%	0.35%	0.50%	+0.15
5	2.01%	0.83%	1.04%	+0.21
7	2.70%	1.34%	1.61%	+0.27
10	3.29%	1.88%	2.21%	+0.33
30	4.33%	2.89%	3.34%	+0.45

Spread Volatility Continues

	Option-Adjusted Spreads (bps)						10 yr Avg OAS
	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	3/31/12	
U.S. Aggregate Index	91	213	61	56	87	64	71
U.S. Agency (non-mortgage) Sector	43	93	30	20	33	20	38
Mortgage and ABS Sectors							
U.S. Agency Pass-Throughs	87	145	18	42	75	52	56
Asset-Backed Securities	242	955	100	82	99	65	150
CMBS	170	1010	473	254	308	221	239
Corporate Sectors							
U.S. Investment Grade	198	555	172	156	234	176	175
Industrial	181	500	138	134	184	148	164
Utility	189	537	161	147	186	159	171
Financial Institutions	220	629	226	191	337	227	194
U.S. High Yield	569	1669	617	526	699	576	596

Baird Advisors Mortgage and Asset-Backed Securities Strategy

Highly selective risk-controlled approach emphasizing structure and collateral

STRUCTURE

- Senior priority in structure
- AAA-rated at issuance
- Significant credit enhancement
- Short average life
- Limit cash flow timing risk

COLLATERAL

- Emphasize fixed rate loans
- Lower loan-to-value (LTV & CLTV)
- Better borrower profile (FICO)
- Top tier originators and servicers
- Geographic dispersion

Perform ongoing stress tests on specific issues we own and remain confident in our-risk-controlled approach over a full market cycle.

Recent Activity – CMBS Purchase

FHMS K705 A2

AAA/AAA

2.1% yield, (+85 bps over comparable Treasury)

\$936 million tranche size

Buy Rationale:

- Senior in the capital structure (20% Credit Enhancement in addition to FHLMC guarantee)
- Very liquid asset class
- Minimal refinancing concerns due to all 7 year balloon loans
- Minimal average life variability (positively convex)
- Attractive valuation when compared to Agency debentures and US Treasury securities
- Fundamentals remain strong:
 - 1.4x Debt Service Coverage Ratio
 - 72% Loan-to-Value
 - Conduit structure – well diversified with top 10 loans representing 37% of the deal

The Power of Rolling Down a Steep Yield Curve – Bond Math

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	Agency MBS Passthrough	US Treasury Note
	GNMA 4.5% 5/20/40	UST 3.125% 4/30/17
	Current Valuation (3/31/12)	
Duration	3.3 years	4.7 years
Price	\$108.82	\$110.13
Annualized YTM	2.41%	1.08%
	Est. Total Return over 12 month Period (Assumes unchanged yield curve and spread curve)	
Income Return*	2.41%	1.08%
Price Return- Rolldown	0.02%	0.94%
Price Return- YC Shift	0.00%	0.00%
Total Return	2.39%	2.02%

For illustrative purposes only. Not meant to be a recommendation. Not a complete analysis of all facts.

Source: Bloomberg and BondEdge

Data as of: 3/31/2012

*Less impact of paydowns and price amortization

Additional outperformance expected

- Yield spreads have tightened in recent months, but still see attractive opportunities
- Current prices on many securities are below fundamental fair value

Portfolio Positioned to Benefit from Steep Yield Curve

- Duration neutral overall
- Emphasize securities with attractive yield curve “rolldown”

Portfolio Positioned to Benefit from Spread Sector Outperformance

- Maintain underweight to U.S. Treasury sector
- Good opportunities in spread sectors

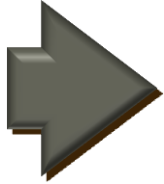
Risk control discipline critical in a higher risk environment

Experienced investment team and risk controlled process key to strategy's long-term success

Section 3

Update on Bay County Employees' Retirement System

Risk Control Discipline



Duration neutral to benchmark



U.S. Treasuries and Government Agencies Securities

- Emphasized for long duration exposures
- Used to match duration



Credit Securities

- Limited credit exposure in more volatile sectors with continuous review of credit allocation
- Focus on financial industry with higher priority given to credit rating
- Diversification increases as quality decreases



Mortgage-backed and asset-backed securities

- Focus on fixed-rate collateral vs. ARMs
- Seasoned, more stable mortgage-backed securities
- Use Bloomberg, Intex, Real Point and Yield Book for residential and commercial loans

Risk control is the foundation of our investment discipline

Bay County Employees' Retirement System Summary Investment Objectives and Portfolio Guidelines

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a blue parallelogram background.

Investment Objective

The investment objective of the account is income generation and capital preservation.

Custom performance benchmark

A custom index comprised of 50% Barclays Capital Government Index and 50% Barclays Capital Mortgage Index plus 30 basis points.

Performance objective

Outperform benchmark net of fees over complete market cycle (3-5 year period).

Primary Investment Focus

- Permitted investments include U.S. Government and Government agency issues and U.S. Government agency mortgage-backed securities.
- Investment in interest only (IO's) and principal only (PO's) mortgage securities and other structures incorporating leverage is prohibited.
- The average duration of the portfolio will be maintained within +/- 20% of the duration of the custom benchmark.
- The account is intended to be fully invested. Residual cash will be invested in custodian's short-term investment fund (STIF) account.
- Manager will seek to maintain appropriate portfolio diversification.
- Manager will provide quarterly written portfolio review and timely notification of all significant portfolio and manager organizational issues. Manager shall meet with the Trustees at least annually.

Bay County Employees' Retirement System

Portfolio Characteristics as of March 31, 2012

BAIRD

	Nominal Weighted Composition			
	Fixed Income Portfolio	Customized Benchmark		
Yield to Maturity	1.89%	1.96%		
Duration	4.31 years	4.31 years		
Average Maturity	5.40 years	5.97 years		
			Duration Weighted Composition	
			Fixed Income Portfolio	Customized Index
Quality Breakdown				
U.S. Treasury	38%	43%	58%	56%
U.S. Govt Agency	54	57	37	44
Aaa	8	0	5	0
Aa	0	0	0	0
A	0	0	0	0
Baa	0	0	0	0
Below Baa	0	0	0	0
	100%	100%	100%	100%
Sector Breakdown				
U.S. Treasury	38%	43%	58%	56%
U.S. Govt Agency Debentures	3	7	3	5
Agency Pass-Throughs	36	50	27	39
Agency CMOs	12	0	5	0
Agency CMBS	7	0	7	0
Cash	4	0	0	0
	100%	100%	100%	100%
Number of Issues	71	1,959		
Market Value*	\$21,885,332			

Customized Index: 50% Barclays Capital Government & 50% Barclays Capital MBS

*Market value is preliminary

Bay County Employees' Retirement System



	Fixed Income Portfolio Gross of Fees	Customized Benchmark
2006 (Apr-Dec)	5.04%	4.85%
2007	7.20%	7.78%
2008	9.13%	10.36%
2009	3.72%	1.79%
2010	5.63%	5.46%
2011	7.91%	7.62%
2012 (Jan)	0.55%	0.43%
(Feb)	-0.25%	-0.28%
(Mar)*	-0.44%	-0.42%
Year-to-Date	-0.14%	-0.28%
Since Inception		
Cumulative Return	45.06%	43.66%
Annualized Return	6.39%	6.22%

The performance is presented on a cumulative basis and does not reflect the deduction of investment advisory fees. Return would be reduced by advisory fee and other fees such as custodial expenses. The maximum fee found in Baird Advisors form ADV is 30 basis points. All returns are calculated on a time weighted, total return basis. The results shown should not be considered representative of future investment returns. The 50% Barclays Capital Government & 50% Barclays Capital MBS Index is an unmanaged portfolio of specific securities. The portfolio does not invest in all the securities traded in the index. Direct investment in the index is not available. Client should review all account statements provided by its custodian and compare those account statements to any account statement provided by Baird Advisors. Baird Advisors relies on securities valuations provided by client's custodian for purposes of performance reports.

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The Baird Advisors Brochure, which serves as a substitute for Form ADV Part II, is available upon request.

*Performance shown for the month of March is preliminary.

Bay County Employees' Retirement System



	Fixed Income Portfolio Net of Fees	Customized Benchmark
2006 (Apr-Dec)	4.80%	4.85%
2007	6.89%	7.78%
2008	8.81%	10.36%
2009	3.41%	1.79%
2010	5.31%	5.46%
2011	7.59%	7.62%
2012 (Jan)	0.53%	0.43%
(Feb)	-0.28%	-0.28%
(Mar)*	-0.46%	-0.42%
Year-to-Date	-0.22%	-0.28%
Since Inception		
Cumulative Return	42.50%	43.66%
Annualized Return	6.08%	6.22%

The performance is presented on a cumulative basis. All returns are calculated on a time weighted, total return basis. The results shown should not be considered representative of future investment returns. The 50% Barclays Capital Government & 50% Barclays Capital MBS Index is an unmanaged portfolio of specific securities. The portfolio does not invest in all the securities traded in the index. Direct investment in the index is not available. Client should review all account statements provided by its custodian and compare those account statements to any account statement provided by Baird Advisors. Baird Advisors relies on securities valuations provided by client's custodian for purposes of performance reports.

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*Performance shown for the month of March is preliminary.

Benefits for Bay County Employees' Retirement System

- Long-term relationships focused on client and direct communication
- Experienced management team implementing proven investment discipline
- Total focus on fixed income management
- Culture and resources key to future success
- Importance of the relationship to Baird Advisors

We believe our team, our entrepreneurial environment and substantial resources enable us to provide our clients with the best possible fixed income investment management services available

Appendix

Economic & Market Outlook

U.S. Economy: Moderate Growth with Continued Restraints

- Moderate, below-trend growth of 2-2.5% base case for 2012
- Business spending-led recovery in U.S. driven by strong profits; EMs driving global growth
- Restraints for U.S. consumer continue; elevated unemployment, negative real wages, high gas prices
- Additional headwinds: increased regulation, year-end fiscal "cliff"
- European debt crisis and general policy uncertainty continues to dampen business and consumer confidence
- Below-trend growth likely for an extended period; "Double-dip" unlikely
- Job creation will be moderate with unemployment rate remaining elevated for years

Inflation: Wages Remain Benign with Elevated Consumer Inflation Rolling Over

- Wage inflation remains benign given slack in U.S. labor markets
- Elevated Headline CPI rolling over (core CPI, excluding food and energy, at 2.2% Y-o-Y)
- Moderate growth and benign wage inflation will give Fed time to reverse policy

Housing Markets: Prices in Rocky Bottoming Process

- National home prices in long process of bottoming since mid-2009
- Elevated unemployment and foreclosure "pipeline" still a risk to price stability

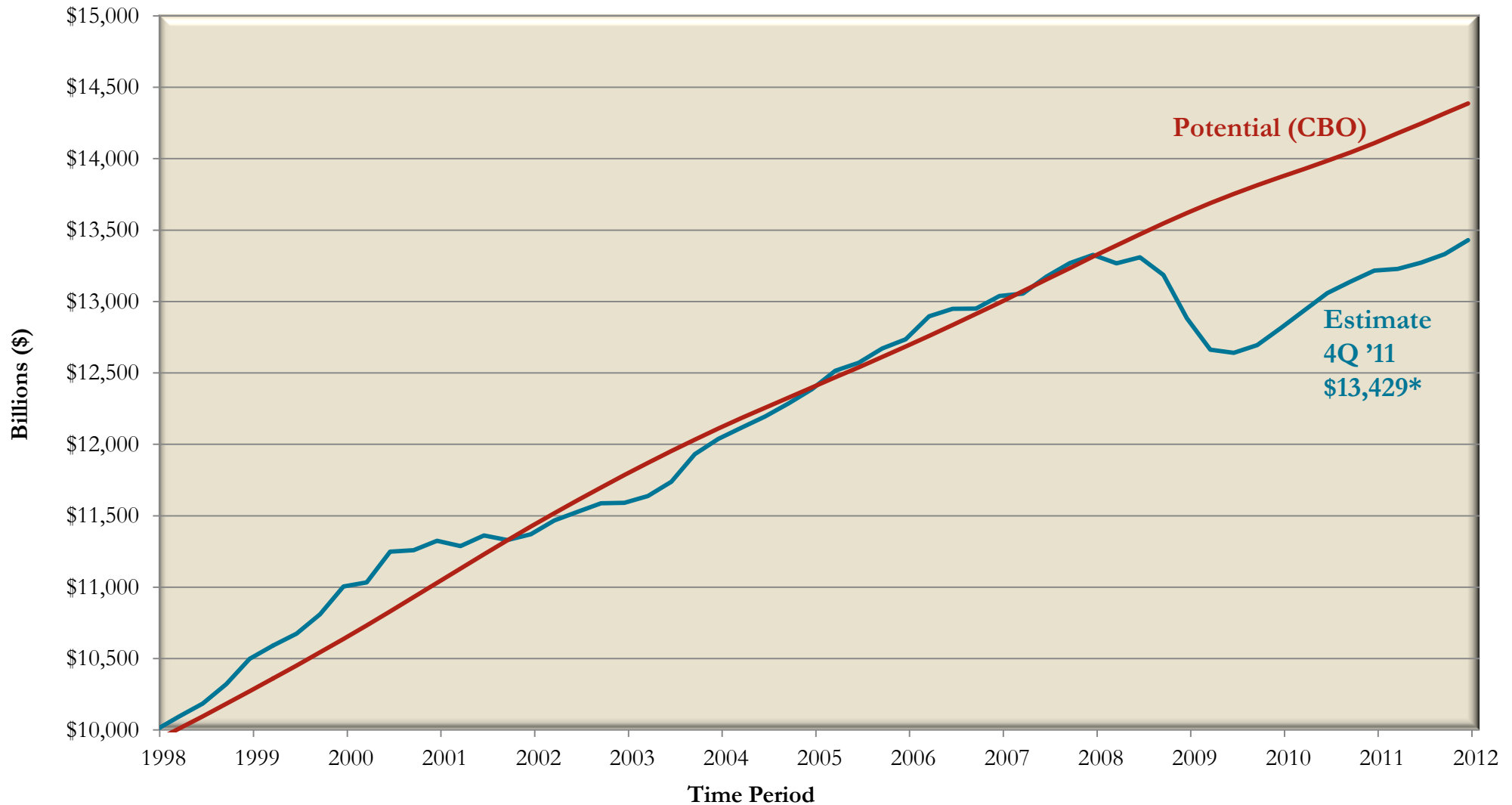
Financial markets: Stock and Bond Prices Discounting a Long Period of Moderate Growth

- Valuations generally fair with some attractive opportunities
- Risk environment will stay elevated with a wide range of potential outcomes possible

Significant Slack in U.S. Economy

BAIRD

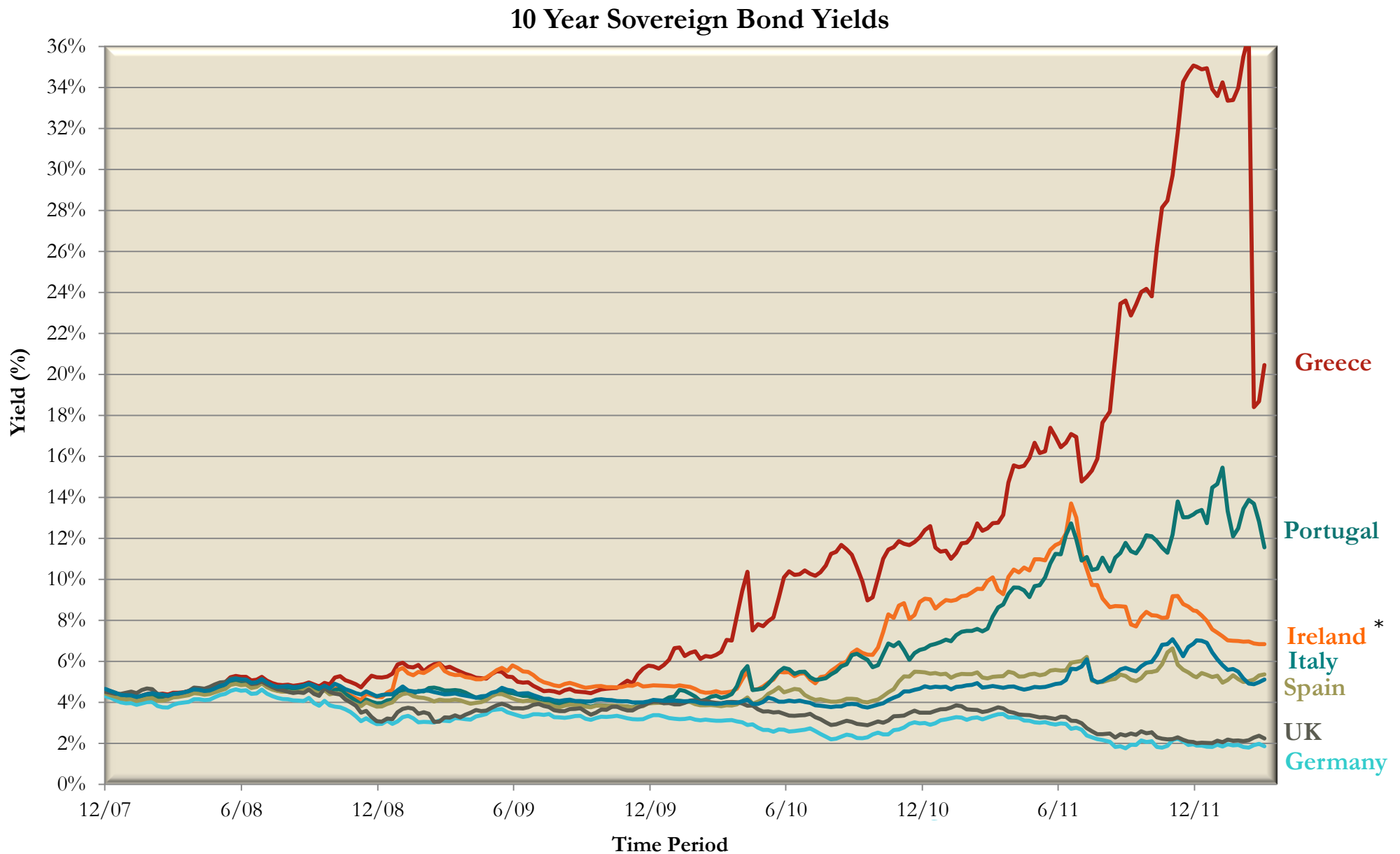
Real GDP: Actual vs. Potential



Source: ISI, Bloomberg
Data as of: 3/31/2012

*annualized

European Debt Crisis: Still a Concern



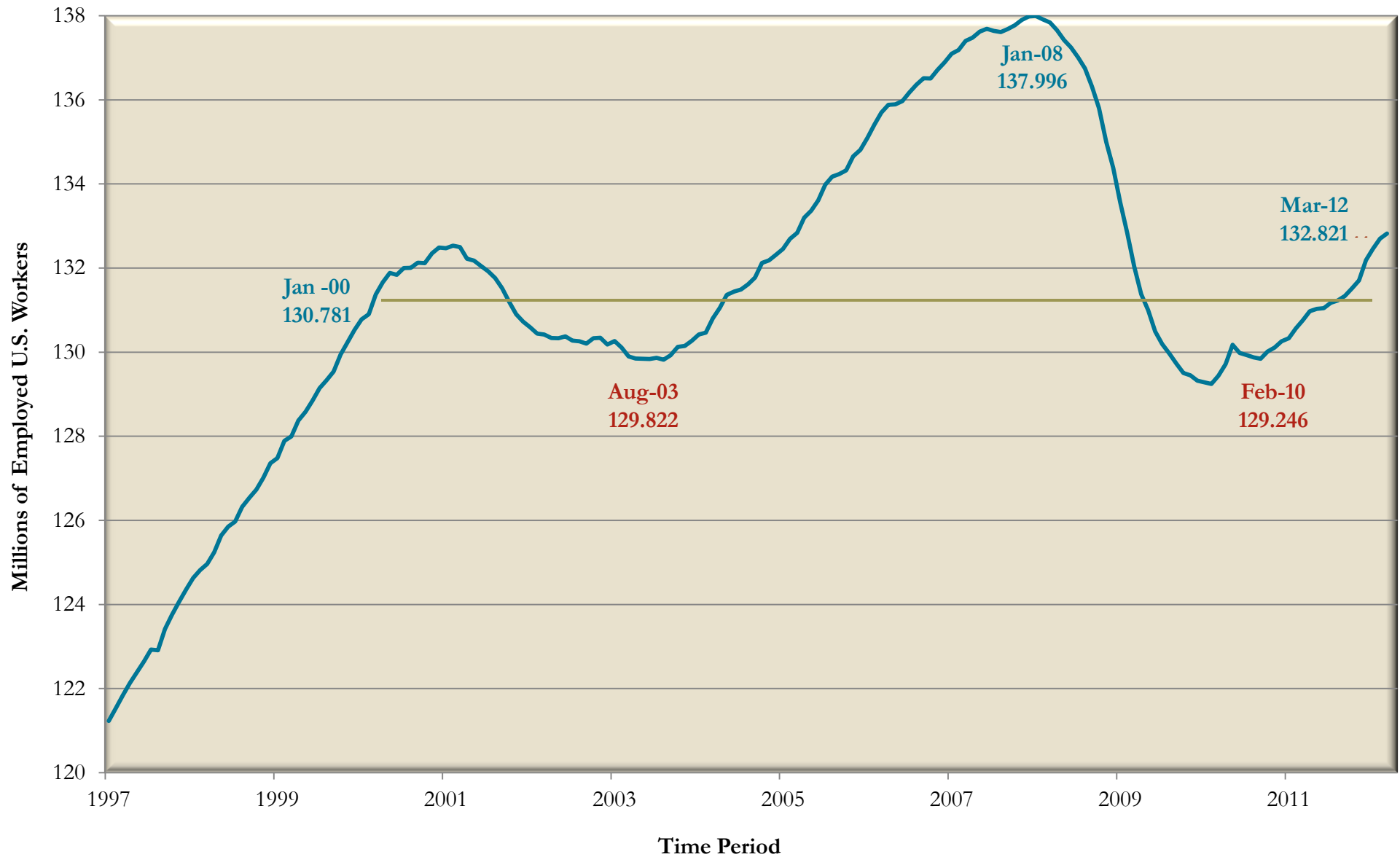
* Ireland represents a 9yr Yield as of 10/10/11

Source: Bloomberg
Data as of: 3/31/2012

Lost Decade for Employment

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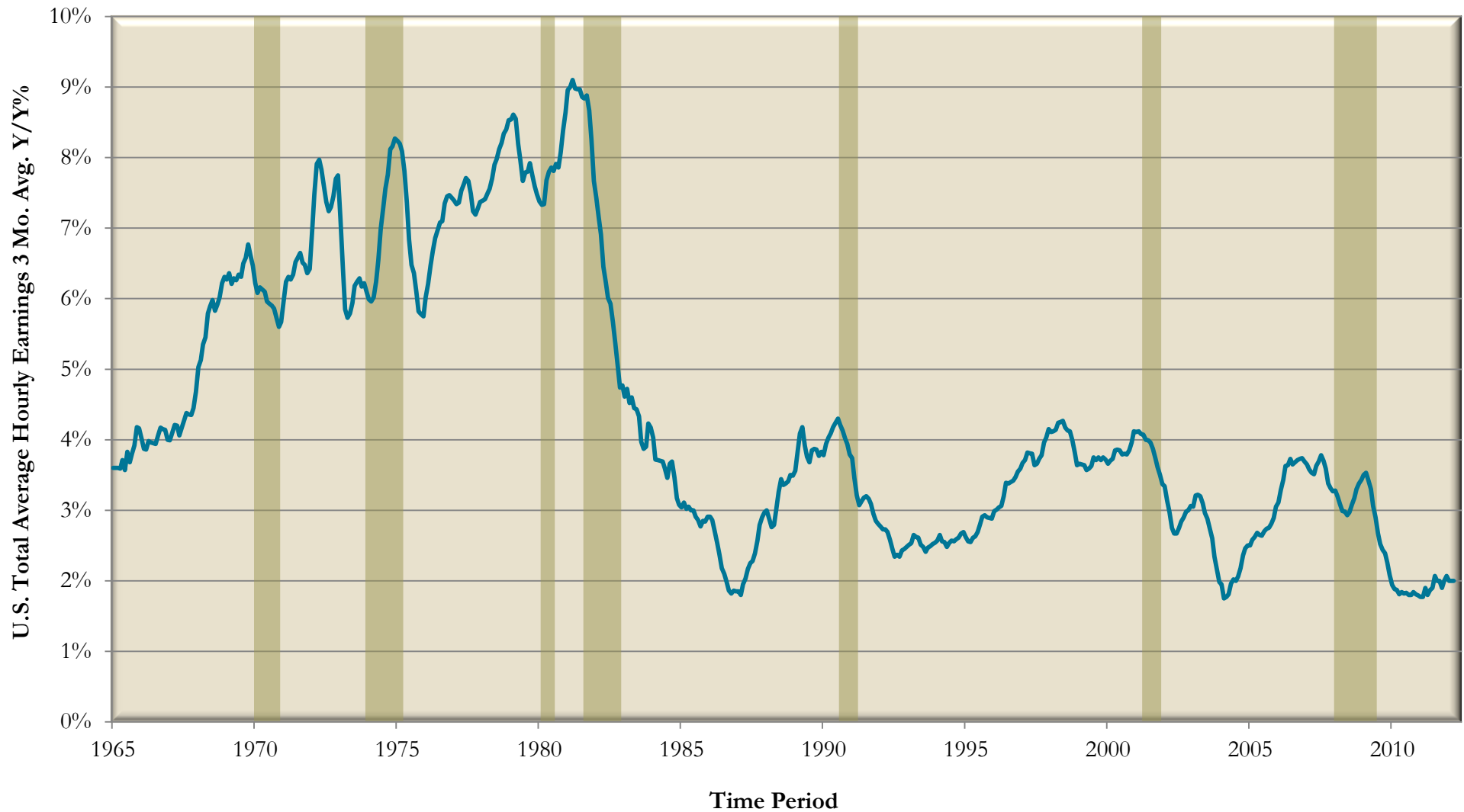
Total Number of Employed Persons



Source: Bianco Research, Bureau of Labor Statistics – Total Nonfarm Payrolls
Data as of: 3/31/2012

Wage Pressure Virtually Non-Existent

**U.S. Total Average Hourly Earnings
3 Mo. Avg. Year-over-Year % Change**

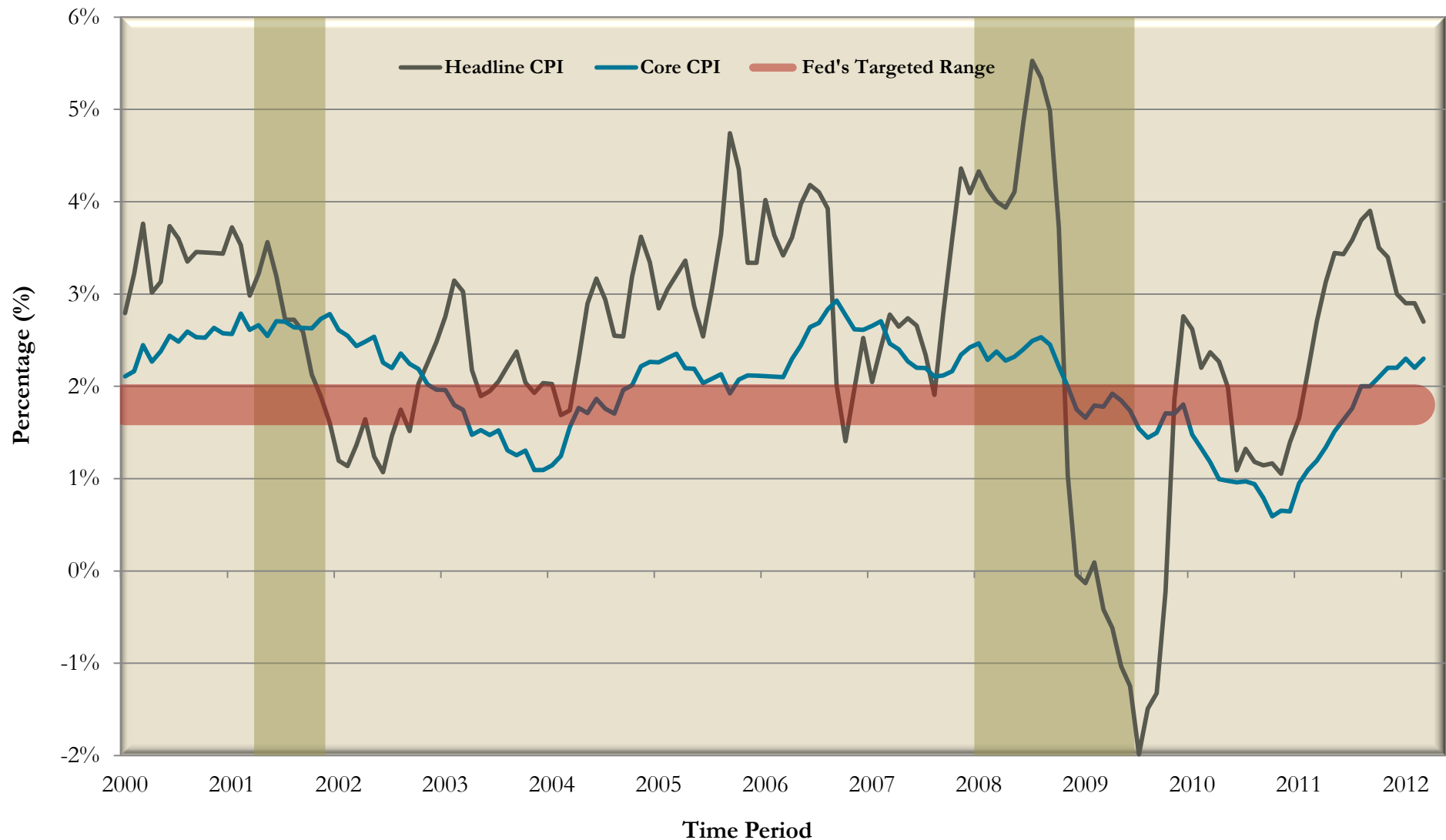


Source: ISI, Bureau of Labor Statistics, Employment and Earnings
Data as of: 3/31/2012

Core Inflation Near Fed's Range, Headline Still Elevated

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Year-over-Year % Change in Inflation

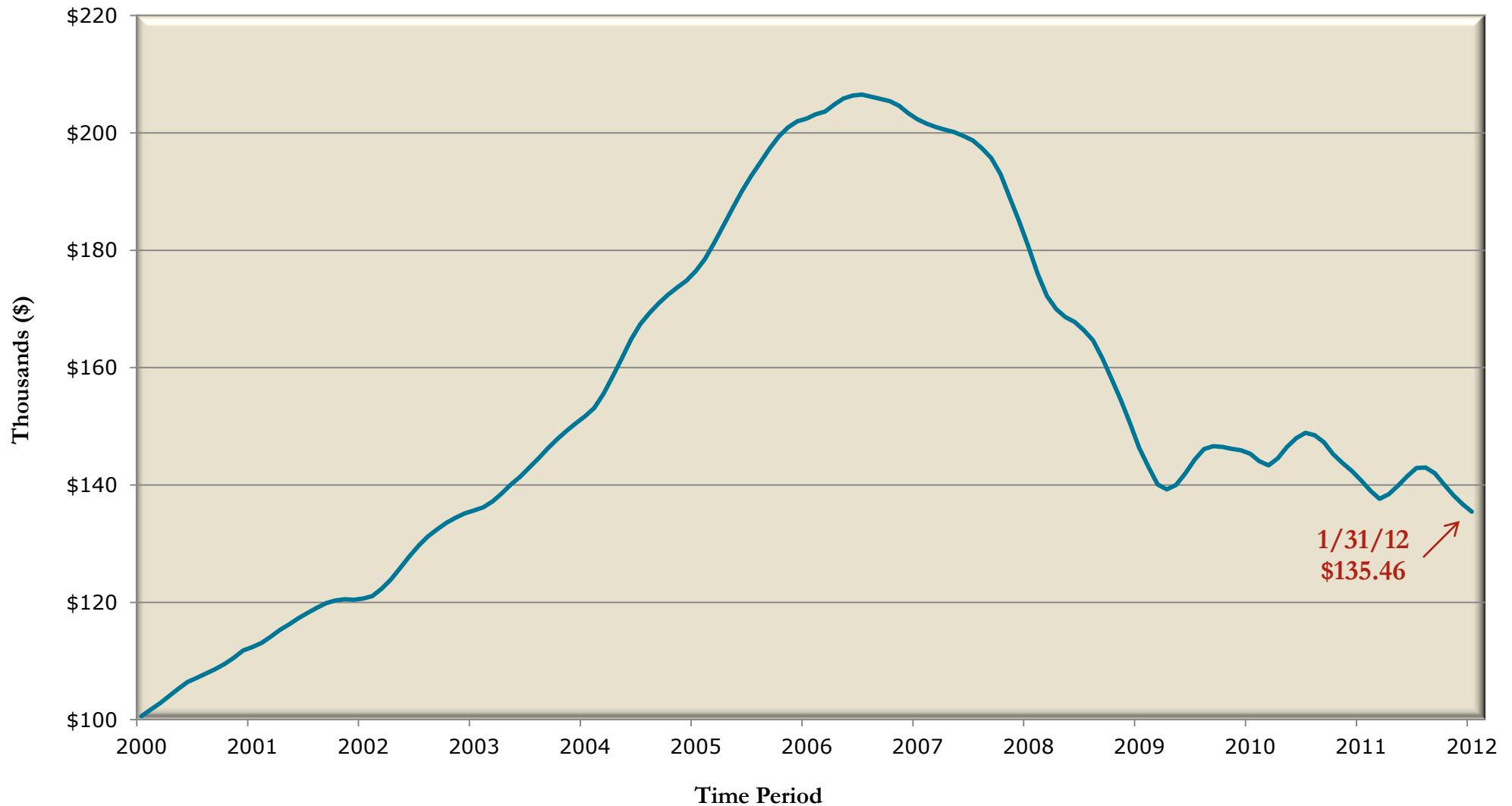


Source: Bureau of Labor Statistics
Data as of: 3/31/2012

Rocky Bottoming Process in Housing Continues

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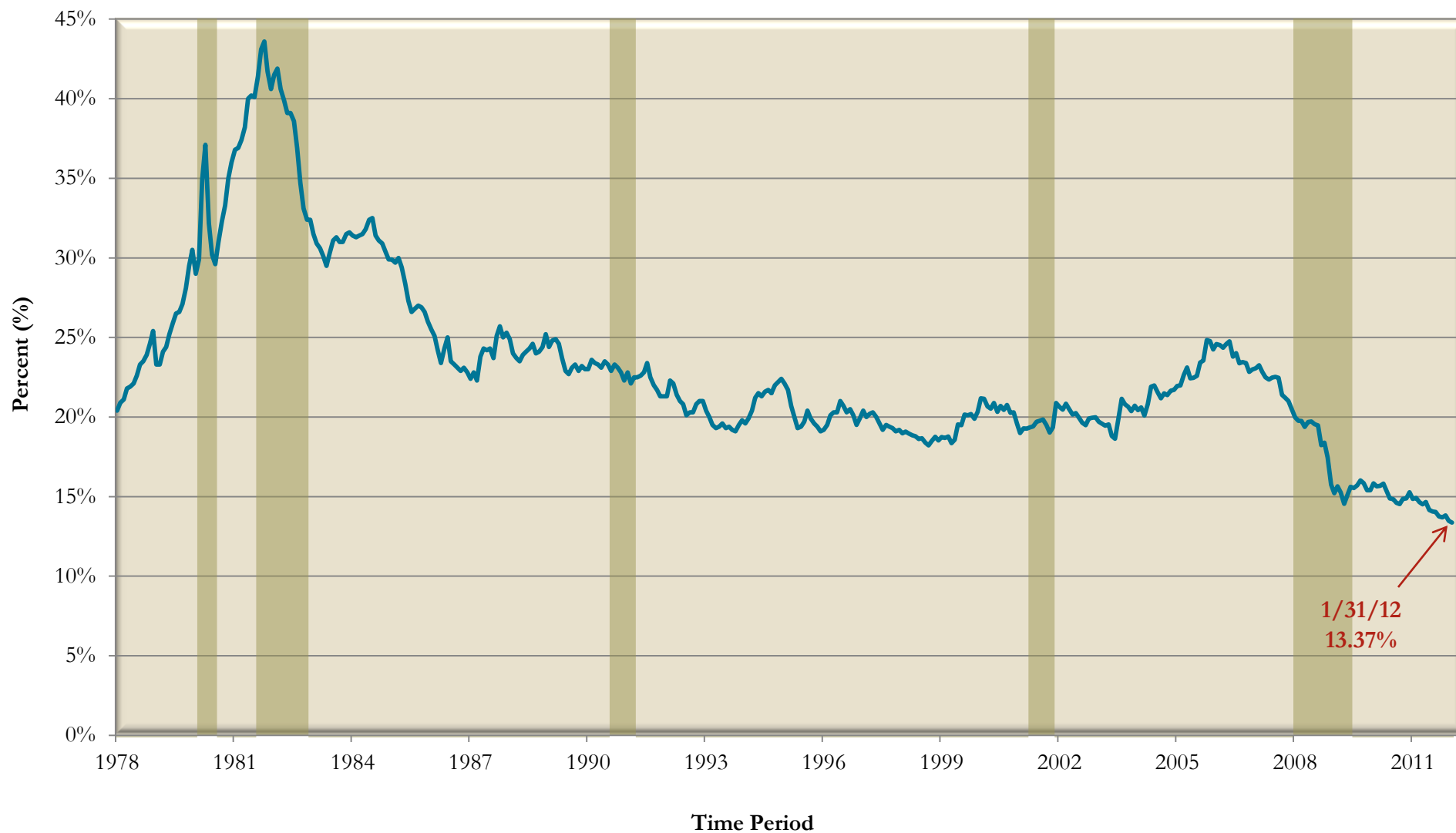
Case-Schiller Nominal Home Price Index



Source: ISI, Bloomberg
Data Release as of: 3/27/12

Housing Affordability Best in 30 Years

Monthly Mortgage Payments as a % of Monthly Median Income



Overall Leverage “Shift” from Private to Public

U.S. Debt as a Percentage of GDP

